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ATLANTIC & GREAT WESTERN
RAILWAY.

LETTER
TO
GENERAL MEMBERS
OF THE
COMMITTEE FOR MUTUAL PROTECTION.

BY
WILLIAM LANCE.

LONDON:
PUBLISHED BY JOHN KING & COMPANY, LIMITED, 63, QUEEN STREET, CITY;
AND 9, KING STREET, WHITEHALL.
1867.

ATLANTIC AND GREAT WESTERN RAILWAY.

Committee for Mutual protection of the Bond and
Debenture holders.

The Bond and Debenture holders favorable to the
general principles contained herein are invited to meet
the Preliminary Committee at the London Tavern, at
10:30 a.m., on Tuesday, the 5th inst., for general action.

THE
ATLANTIC AND GREAT WESTERN
RAILWAY.

TO THE
COMMITTEE FOR MUTUAL PROTECTION OF THE BOND AND
DEBENTURE HOLDERS.

THE issue of the Report to the Bond, Debenture and Shareholders of this Railway, by James McHenry, Esq., with the Annual Report of the President and Directors of the Atlantic and Great Western Railway for the 10 months ending 31st October, 1865, with accompanying documents, will be received by the several parties to whom it is addressed with mingled feelings of assent and disappointment.

To the Mortgage Bond holders it may be regarded upon the whole as satisfactory, while the Debenture holders will find much to re-assure them, and to encourage them to retain their securities, while it will prepare them to submit to a very considerable reduction in what they were justified in believing they were entitled to.

As both Bond and Debenture holders are interested in the mortgage debt of the Company, they will be gratified to find it certified to by a competent and independent authority, Mr. Bird, of the firm of Coleman, Turquand,

Youngs & Co., that the property is not in the condition it has been so shamefully represented to be; but it consists of 426 miles of constructed Railway, and a branch 81 miles in length, leased to the Company at a rent of £274,072 per annum, but the revenue is represented as considerably in advance of working charges and rent.

Mr. Bird says, "The cost of the line appears by the Company's Books to amount to \$56,357,563, which represents the outlay for constructing and equipping 426 miles of road, and the cost of laying additional rails on 51 miles out of the 81 miles of the Cleveland Extension, so as to make an unbroken connection with the six-foot broad gauge of the Atlantic and Great Western Line. The Capital Expenditure by the accounts now submitted is \$62,789,525, the difference being represented by balance standing to the debit of the contractor." The expenditure for constructing which is a charge upon capital, not revenue, is certified by the General Superintendent to amount to "between the 1st of January and the 31st October" \$901,565.95, and during the same ten months \$563,865.57 was "expended for Repairs of Road and Structures," that is, \$1,465,431.52 expended upon the road in ten months, all such expenditure being given in detail in the Report. Mr. McHenry also stated that between October, 1865, and May, 1866, he had remitted from London to complete works "over £600,000; the severity of the panic, and the successful efforts at discrediting the Company, causing a suspension of these remittances."

The expenditure upon Capital Account is very great, but the Bond holders claim upon the assets of the Company is but \$30,000,000. The Debenture-holders have a lien of \$6,117,600 upon this \$30,000,000, and although

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\$1,312,000 of Buffalo Extension Bonds, and \$300,000 New Lisbon bonds form part of these \$6,117,600, those lines not being completed, the securities are without value. It would seem that a portion of the Exceptional Bonds will be replaced by Consolidated Bonds, reserved for their exchange; and the entire property of the Contractor is pledged for the completion of the branches. Unfortunately, the greater portion of the securities for the redemption of the Certificates of Debentures consist of only preferential and common shares of the Company, receiving dividend only after all bonds obtain interest. This is a general outline of the position of the Bond and Debenture-holders' interest. We will examine the same more in detail.

The capital account of the Company presents considerable changes since the 31st December, 1865. Then and on the 31st October, 1866, is shown as follows:—

	December 31, 1865.	October 31, 1866.
1st Mortgage Bonds	\$10,342,000	\$8,713,400
2nd Mortgage do.	5,800,000	4,171,500
Consolidated do.	13,858,000	17,115,100
Preference Shares	1,919,000	} 30,000,000
Common Shares	11,522,150	
Revenue Accounts	2,823,041	3,176,592
Balance from General Balance Sheet	342,283	1,318,970
	<u>\$46,606,474</u>	<u>\$64,495,562</u>

The other side of the account representing—

	December 31, 1865.	October 31, 1866.
Construction propor. }		\$48,047,989
Interest }		4,521,288
Premium in Gold }	\$46,606,474	47,549
Discount in Bonds }		3,341,796
Profit and Loss		37,204
Balance		8,499,736
	<u>\$46,606,474</u>	<u>\$64,495,562</u>

In the Annual Report of the Atlantic and Great Western Railway, dated 31st December, 1865, the amount

of \$46,606,474 is represented as expended in construction of 426 miles of Railway in New York, Pennsylvania, and Ohio, and in making 51 miles of Cleveland and Mahoning line into broad gauge, also amount expended on branches to this date, and interest during construction, while in the Statement of Stock and Bonds issued, the whole of the "Bonds" are represented as being given over to the contractor, \$16,558,850 in Shares being reserved for subsequent works; in the Special Report of Messrs. Coleman, Turquand, Youngs & Co. the \$46,606,474, specifying that the completion of the Buffalo Extension and New Lisbon line, forms part of the work chargeable upon that capital.

An Extract from Minutes dated 12th January, 1866, specifies a contract made with J. McHenry for the completion of the required works, and that in payment, the Securities of this Company, in Shares and Bonds, in excess of the account of said McHenry, now rendered to 1st October, 1865, (a marginal note representing this as \$49,865,215, while in the accounts of the Company Capital Account on the 31st December, 1865, the receipts, including *all Bonds*, with certain Shares and proceeds of revenue, represents only \$46,606,470 in payment of account of the \$49,865,215, apparently admitted due on the 1st October 1865) so that any dispute between the Company and Mr. McHenry does not appear likely to affect the interests of the Bond holders, as having claim only upon \$30,000,000 of Bonds; while, if the suggestion which will be submitted should be adopted, the Debenture holders are relieved from controversy in the settlement thereof.

It is evident from the facts submitted in the report, that Mr. McHenry is not only the accredited agency of the

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Company and the contractor for the construction of the line, receiving the securities of the Company without acknowledgment for their special application, had the right to apply them at his discretion, so that neither the Bond or Debenture holders have the right to call him to account for the use he may have made of them in the carrying out of his contract, and whether he sold or gave them away is his business. But all parties interested may take part in calling upon him to fulfil his contract. If he has undertaken to build the Buffalo Extension and the New Lisbon lines, he must build them, or have them built. If from the financial panic of last year, or any other causes, he is unable now to complete his work, and further time is likely to advance the value of securities given for the purposes of this work; I think the majority of the Bond and Debenture holders will readily grant such extension of time, but they look to him to complete the work without unnecessary delay.

It is a trite saying, although offering little comfort to the sufferer, that, "It is no use crying after spilt milk;" "That which is done cannot be recalled." And instead of wasting precious time in recrimination, and money in litigation, let all interested exert their energies and concede their present indulgence to repair the damage done to the property, for it is yet a property which before long will prove its own value. Nevertheless, we may take a brief review of the past, and then dismiss the recollection of it if we can. Long before any of the parties now interested in the finances of this Railway, Corporations existed for building the line under separate Companies, formed under charters from the States of New York, Pennsylvania, and Ohio. These several Companies purchased the land, fenced and graded a large portion of the several Railways, and

failed. The work done is represented by a portion of the share capital. There was a powerful opposition to the introduction of another "Through Railway" to the West. Railway Managers, even in America, oppose all trespass upon what they deem their territory, and the local interests which owned the charters of these several Railways, and had graded 152 miles of the work, were too weak to contend against the combined influence of the Pennsylvanian Central and New York Central, while their only supporters, the New York and Erie, was often in bankruptcy, and had several times to re-organize itself. Other parties then took it up and failed; and, although it is not now politic to speak or write in favor of Mr. McHenry, I maintain that it is to his indomitable courage and perseverance that we owe the fact of the Railway being a high way from Salamanca to Dayton. The success he accomplished in opening the Railway under almost unparalleled difficulties, and the extraordinary traffic he has secured to it, will be fairly realized in the general balance of profit and loss through his agency. I am neither his apologizer or accuser, those who are without faults may condemn him. The road has cost an enormous sum; but, as representing certain Bond Debenture holders, I am only estimating expenditure according to the value of the mortgage debt, that to me is therein the only test of value. There is to the Debenture holder the interest to the Buffalo Extension and Lisbon Branch Bonds, and in the Preference and Common Stock deposited in the Bank of England for the redemption of the Debenture Bonds; but the only tangible security for our property is the *Mortgage Bonds of the Company*.

The Committee, representing the independent Bond and

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Debenture-holders, must treat the mortgage Bonds of the Company as the "Capital of the Company," and in this light we shall consider what the road has cost, and what its revenue is to pay interest upon that capital. The Shareholders and the Creditors of the Company will consider the figures we present, under different aspects from those by which we view them, and while both will be right, each will entertain very different ideas of the future.

The mortgage Bonds of the Company appear to have been created in the following order, and on the 31st October, 1866, were in force as stated:—

Created.		When Issued.	Outstanding.	
			31st Oct. 1866.	
1st October, 1855.	Ohio 1st Mortgage	\$4,000,000 ...	\$3,740,900	
1st October, 1859.	Pennsylvania do.	2,500,000 ...	2,151,500	
1st July, 1859.	New York do.	1,000,000 ...	876,000	
1st April, 1861.	New York 2nd Mortgage ...	800,000 ...	761,000	
1st July, 1862.	Pennsylvania do.	1,000,000 ...	757,500	
1st December, 1862.	Franklin Branch 1st Morg.	528,000 ...	349,000	
1st July, 1863.	Ohio 2nd Mortgage	4,000,000 ...	2,653,000	
1st February, 1864.	Erie New York City do. ...	14,000 ...	14,000	
1st June, 1864.	Buffalo Extension 1st Morg.	2,000,000 ...	1,382,000	
1st September, 1864.	Silver Creek do.	300,000 ...	200,000	
1st September, 1865.	Consolidated Bonds	13,858,000 ...	17,115,100	
		<u>\$30,000,000</u>	<u>\$30,000,000</u>	

Upon the Main Line the charges appear to be as follows:—

First Mortgage—

	Created.	Existing.
New York	\$1,014,000 ...	\$890,000
Pennsylvania	2,500,000 ...	2,151,500
Ohio	4,000,000 ...	3,740,900
	<u>\$7,514,000</u> ...	<u>\$6,782,000</u>

Second Mortgage—

	Created	Existing.
New York	800,000	701,000
Pennsylvania	1,000,000	757,000
Ohio	4,000,000	2,653,000
	<u>\$13,314,000</u>	<u>\$10,953,900</u>

**THE CONSOLIDATED BONDS COVERING THE MAIN LINE
AND BRANCHES.**

The net-earnings necessary to pay interest upon all bonds issued on the Main Line being 931,980 dols., and upon those in force 766,776 dols.; this must be earned before the Consolidated Bonds receive any payment for interest.

Upon Branch Lines there have been issued—on the Franklin Branch, 528,000 dols., and on the Silver Creek Branch, 300,000 dols.; of which only 200,000 dols. is now in force—the former taking 36,960 dols., and from the latter 14,000 dols. before the Consolidated Bonds can receive anything from these two branch lines. Neither the Youngs Town Branch or the Oil Creek Railway appear to give any income to the Consolidated Bonds under the mortgage bonds, and a question arises as to the claim which the Consolidated Bonds have upon other than the peculiar divisional bonds and the branch line as above, to which the particular mortgages attach; nor do the Shareholders of the general system receive the surplus after payment of interest upon such mortgage, chargeable upon each division of the system. On the Main Line each section is chargeable upon each other section, but the Branches, not specified in the mortgage, seem to have a separate and distinct existence. For instance, upon the Youngstown Branch and its connection,

ATLANTIC AND GREAT WESTERN RAILWAY,

COMMITTEE FOR MUTUAL PROTECTION.

ATLANTIC AND GREAT WESTERN RAILWAY,

COMMITTEE FOR MUTUAL PROTECTION.

To the Acting Committee.

GENTLEMEN,

You are at liberty to add my name to your General List of Members of the

Bond and Debenture Holders' Committee for Mutual Protection.

Name _____

Address _____

Holder of _____

The Names of Gentlemen willing to join the "Acting Committee" are particularly requested.

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the Cleveland Line, whose rent is a charge upon the Company, there should be, as there is, a large profit upon working the line. The Consolidated mortgage over the Main Line, Franklin and Silver Creek Branches, and Buffalo Extension advantage by the working of the Cleveland and Youngstown Branch, or the Oil Creek Line. These are matters for the consideration of the Committee for Mutual Protection, as the branches are valuable feeders to the general revenue.

THE PRIORITY OF CHARGE FOR THE BOND DEBT.

This has been already referred to. Upon the main line, of $387\frac{1}{2}$ miles, the first charge is 1,225 dols. per mile, per annum; the first and second charge 1,980 dols., after which, if the interest is paid in currency, the Consolidated Bonds take all earnings until their full interest is paid. This is supposing the interest upon the mortgage debt to be paid in currency; and neither principal or interest can be legally claimed otherwise than in currency, otherwise as a general debt against the Company. The mortgages upon the branches are the first charge upon them in currency, while the Consolidated Bonds are entitled to all surplus after payment of their several rents.

Should interest not be paid upon the Divisional Bonds as it becomes due, the holders (under the arrangements contained in the Mortgage Deed) have power to foreclose upon the Railway, and sell it; but in doing this, they would render the Share Capital and floating debt of the Company, as also the Consolidated Bonds, worthless; so the holders of the excluded securities have a vital and powerful interest to prevent foreclosure, and all parties will be benefited by

mutual concession for the general good. All Bonds in sterling must be reduced to currency; they have no legal existence but as currency bonds. For the difference in value between sterling and currency, the holders may claim against the Company as ordinary creditors, but could not foreclose upon the line to recover payment, otherwise than in the currency of the state in which the mortgage is registered.

On the 23rd October, 1866, the Secretary of the Company notified to the Stock Exchange, that Consolidated Bonds to the extent of 3,257,000 dols. had been exchanged for Divisional Bonds; and according to the statement made, the priority of charge would be as follows:—

First Mortgage—

	Issued.		Exchanged.		Outstanding.
New York ...	\$1,014,000	...	\$742,000	...	\$272,000
Pennsylvania ...	2,500,000	...	527,500	...	1,972,500
Ohio ...	4,000,000	...	359,100	...	3,640,900
					<u>\$5,885,400</u>

Second Mortgage—

New York ...	\$800,000	...	\$39,000	...	\$761,000
Pennsylvania ...	1,000,000	...	242,400	...	757,600
Ohio ...	4,000,000	...	1,347,000	...	2,653,000
					<u>\$10,057,000</u>

Outstanding 23rd October, 1866 ...

On the 31st October the Company in America had not exchanged quite so large an amount, but this statement is confirmed by the Committee of Investigation, a net revenue of only 703,990 dols. would suffice to pay interest upon all the Division Bonds for which the Railway is liable. The Bonds exchanged for Consolidated Bonds will have been cancelled, including, as may be assumed, the Bonds drawn at various dates.

Supposing the holders of the Divisional Bonds to claim the conditions of their "Bond," the Consolidated Bond holders, in order to retain their hold upon the line, would be specially interested in seeing the above interest paid. To secure their right to payment, 703,990 dols. must be provided. Now, the estimated earnings upon the Main Line last year was 2,860,000 dols.; 25 per cent. of these earnings will, therefore, pay interest on all Bonds prior to the Consolidated Bonds as affecting the Main Line, for the maturing rent does not apply to the Main Line.

The priority of charge upon the Branch Line is the interest upon the Franklin Branch, which will give a considerable revenue to the Consolidated Bonds after payment of all prior charges; while, as the Silver Creek and Buffalo Extension, in all 2,300,000 dols., are not built, no priority of charge can exist on their accounts; so, for all practical purposes, the priority of charge superior to the Consolidated Bonds should be—

Divisional bonds outstanding	\$10,057,000	interest	\$703,990
Franklin Branch	528,000	"	36,960
Buffalo Extension (not built)		"	Nil
Silver Creek (not built) ...		"	Nil
			<hr/>
			\$740,950
Rent Mahoning Line pay			300,000
			<hr/>
			\$1,040,950
			<hr/>

leaving all surplus of revenue for payment of interest upon Consolidated Bonds.

THE REVENUE OF THE LINE.

For the 10 months ending 31st October, 1866, the

receipts of the line are certified to be \$4,833,490, the entire revenue of the year being \$5,700,000.

The receipts and expenditure for the 10 months is as follows :—

From Passenger Earnings	\$1,257,266.77
Freight do.	3,478,915.83
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	\$4,736,182.60
Engine and Car Service, Rents, &c.	67,307.26
	<hr/>
	\$4,833,489.86
	<hr/>
EXPENSES.	
Working Charges	\$3,522,400.23
Insurance	5,817.33
RENTS.	
Cleveland and Mahoning	223,360.00
Franklin Branch Quay	41,666.66
	<hr/>
	3,798,304.22
	<hr/>
	\$1,035,185.64
Interest 10 months on \$30,000,000 in currency	1,750,000.00
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Deficiency	\$714,814.36
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Here then there is a deficiency of \$714,814.36 upon ten months' earnings, even if the interest upon the bonds were payable in currency; but is it *necessary* there should be a deficiency? Certainly not. The road is extravagantly worked, and the rates which belong to the Company are not fairly received. I am not accusing the Managers of acting, as they would term it, dishonestly. There is, unfortunately, a system recently approved by Railway men in America, whereby they become rich, and the Shareholders of the Company which employs go without their dividends, in order to enrich their servants; and yet I do think that if

those servants could see that by what they are doing, they were robbing their employers, the system would be discontinued. But they are in truth robbing their employers. Several months past I referred to this evil as the "New System of Management adopted in the Management of American Railways," and a little time past I returned to the subject, specifying certain facts which had come to my knowledge. A Special Committee of the Ohio Legislature, that Committee reports, among a vast quantity of interesting facts, that "On the Atlantic and Great Western Railway, the freight agents in New York and Cincinnati, bound by their office to devote their whole exertions to the increase of its traffic, are employed, with the knowledge of their superior officers, as Soliciting Agents of a rival transportation line. On the same road the general freight agent, charged with duty of guarding its rights as against shippers and its interests, caused to be made out in his offices the accounts against it of a freight line operating over it, and received from the proprietor thereof the sum of \$1,500 for the year 1865.

In the accounts of transportation for the 10 months ending 31st October, 1866, we find the following charges:—

Station Office Expenses and Stationery	\$55,145.00
Station Agents and Clerks	111,168.42
Contingencies	125,072.06
General through Freight Agents	63,834.04
Foreign Agents and Commission	32,963.81
Total	<u>\$389,083.33</u>

Economy in working and supervision of rates will have to pay future interests on Bond and Dividends upon Stock. I believe this Railway capable of doing both

within a reasonable time. Not only is the road expensively managed, but the rates paid by those whose goods are sent over the line do not find their way into the Treasury of the Company; the traffic of the 10 months rendered in the "Report" would have been greatly increased if it had.

If the working expenses of this Railway are to be 72 per cent. of the gross earnings, it will be necessary to give a very different opinion as to the net Revenue of the Company from that hitherto expressed, but I will show why the road can be worked at a very much lower cost.

There is very little controversy among practical men as to the cost per mile of working a train of a given weight at a given speed; and there is not any special reason for the trains of this Company being of greater weight, or being worked at a higher speed than ordinary East-West Railways in America, where the average charge for these trains was 16.48 dols. for carrying 100 tons one mile.

In the working of a Railway there is not, I believe, much difference in the cost of working through or local freight; in each case there are special causes which, when balanced, render the charges very nearly equal. That which makes the nett profits greater or less, is the sum received for carrying the freight; passenger business being carried at nearly equal rates upon all Railways. In letter No. 2, the local rate obtained for freight upon the average receipts for three years, the price of gold being very high, is shown to be 30.2 dols. for carrying 100 tons one mile, and for through freight 22.4 dols. For freight carried at 22.4 dols. for 100 tons one mile, the working expenses may be 72 per cent., but the Atlantic and Great Western has little through freight. In the letter referred to, the nature of the traffic upon this Railway is specially noticed, and it

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is shown that a very large portion is obtained at high rates; but if there exists a practice of what is called "billing," 25 per cent. less than is carried, the advantage of good rates is a fallacy. The Auditor of the Company reports (page 33) "Had the same rates been received during the past years as during the year previous, the freight earnings would have been increased by about 1,000,000 dols.;" and, let me add, that if the quantity carried *had been paid for*, there would have been a still further increase; the whole increase being nett profit. Let us now consider some—

PRACTICAL PROPOSITIONS.

It is very evident, upon investigating the accounts presented with the Report to the Bond and Shareholders, that the Atlantic and Great Western Railway is unable, at any rate at present, to pay interest upon its indebtedness, or has the necessary means to put the road into such order as will enable it to earn profit in fair competition with other lines. It has to its debit no less a sum than 62,789,525 dols., and could not raise more cash capital upon any terms; yet, without it, its finances cannot be placed upon a sound basis. Until that is done, there is little or no prospect of success. How much of its present capital represents cash, and how much discounts and shares, it is now useless to inquire into. At any rate we will not anticipate the Report of the Committee of Investigation, but doubtless a large proportion of the securities have not realized one-third of their nominal value, still the holders are far better off than a vast majority investing in other undertakings. The Bond and Debenture holders have a Railway of 507 miles in operation

which does work *as profit*. How many are there who have not only lost all their investment in undertakings considered more safe than any American Railway, and have been reduced to poverty by having to contribute "Calls" they never expected they should be called upon to pay. Investors in the Bonds and Debentures of this Railway they have the prospect of ultimately realizing all they could have fairly anticipated.

The General Superintendent of the Railway says, "there will be required for the ensuing year, 40,000 cross-ties, 1,000 tons of iron, 2,500 yards of ballast, 1,500 feet of docking, 64 feet of Howe's truss bridgeing, 25,000 yards of embankment, 30,000 yards for felling trestles, 2,000 perches of masonry, &c, &c." but this might be charged to revenue. The road requires far more than this. There requires a considerable outlay. What that is must be fully ascertained, for which purpose it would be well to employ an English and an American Engineer to ascertain, a joint opinion will be far better than having the opinion of either an American or English Engineer only. We will suppose the cost of putting the line into thorough order, capable of being covered by the nett earnings of the next two years from the 1st of April next, and I take leave to suggest that this be provided for as follows:—

That all classes of Bond holders, and the Debenture holders in respect of the mortgage Bonds held in trust for them, convert their securities, if necessary, into currency Bonds, which is their only legal stations, and that they exchange the four coupons next due, or eight coupons of the Consolidated Bonds for a similar amount of coupons and Bonds, bearing interest at the rate of seven per cent. per annum, and redeemable in ten years.

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That in consideration of the Debenture debt having been over-ridden by the issue of Consolidated mortgage Bonds, and of the Debenture Bonds being converted in currency, as well as the bonds held in trust for them, they, the Debenture holders, receive in November, 1868, currency Bonds, in exchange for Preference and Common Stock, sum for sum, bearing interest at the rate of five per cent. per annum, payable half-yearly, and redeemable at par the 1st November, 1873, such bonds to be a registered mortgage, ranking next after the Consolidated mortgage Bonds.

I have, in order to restore confidence in the future management of the Company, to assure the application of the nett earnings of the Railway during the next two years, for the improvement of the property, and to ascertain that the line is worked to the best advantage, three competent persons be appointed a Board of investigation, with power to inquire into all matters connected with the Company, in America and elsewhere, and with right to inspect all books and documents.

In order to save unnecessary expenditure, it is hoped that the Committee for Mutual Protection, and the Committee of Investigation made, be enabled to work in unity for the general good of all parties interested.

The Bond and Debenture holders, favorable to the general principles contained herein, are invited to meet the preliminary Committee of the Committee for Mutual Protection, at the London Tavern, at 10.30 a.m., on Tuesday the 5th instant, to consider the course of action they will adopt at the meeting called by the Committee of Investigation for noon of the same day at the same place.

No Bond or Debenture holder can be admitted with-

out giving his name and address in writing, with which he is requested to be provided.

Soliciting a fair and candid consideration of the foregoing suggestion,

I have the honour to be,

Your obedient Servant,

WILLIAM LANCE.

26, THROGMORTON STREET, E.C.

1st March, 1867.

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